

The world's 40 highest-paid athletes

Peter Drucker looks ahead

The media business

**Jennifer Capriati
and Monica Seles**

**Too young
to vote
but not
too young
to make over
\$5 million
each this year**



439338

Two of the U.S.' richest teens: Capriati and Seles, who can't even vote yet.

80



"Murder" in the media's battle for advertising dollars.

38

ON THE COVER

Madonna Is The Model 80

By Peter Newcomb

When athletes make more money from endorsements than from salaries and prize money, it helps to develop celebrity status. Meet two of the world's richest self-made teenagers.

The Highest-Paid Athletes 82

Media Wars 38

By Dana Wechsler Linden and Vicki Contavespi
There's gloom—and opportunity—in the media industry these days.

An Interview With Peter F. Drucker 72

By Mark Skousen

The wise old man of business tells why he doesn't see a global financial crisis, why most business school teaching is obsolete and why IBM and Japan Inc. are in trouble.

COMPANIES/INDUSTRIES

Publishing 42

By Fleming Meeks

Tom Clancy's new book will make him millions. MCA's Putnam Berkley Group won't do badly either.

Atlantic Richfield Co. 43

By Toni Mack

Is its cleaner-burning gasoline a shrewd ploy to increase competitors' refining costs?

■ The Annual Mutual Fund Survey appears in our next issue, September 2.

Crane & Co.

By Linda Killian

Does quality matter? Here's an outfit that has survived for nearly two centuries, remained family-owned and prosperous.

Pet Food 50

By Matthew Schifrin

Brown rice for dogs? Don't laugh. It's transformed a tired industry and created another great American fortune.

Up & Comers: Duty Free International 56

By James Lyons

Helped by more border traffic and Canadians' passion for beating the taxman.

Up & Comers: Thomas Nelson, Inc. 58

By Ignatius Chithelen

Sam Moore strayed from his religious publishing niche—and suffered.

Watch Out, Corning 64

By Gale Eisenstodt

Glass is crucial to the information age, and Japan's Hoya is one of the most innovative glassmakers.

Retailing 70

By Rita Koselka

More department stores appear ready to bite the dust.

INTERNATIONAL

Is It Mere Wishing? 41

By Peter Fuhrman

The Baltic republics struggle for freedom, but the Red Army isn't loosening its grip.

MONEY & INVESTING

South African Blue Chips 48

By Tatiana Pouschine with Amy Feldman

Will state and local pension funds buy off-limit stocks when the laws change?

Calculated Risks 136

By Suzanne L. Oliver

Scudder's short-term bond fund has higher returns from long bonds but lower risk from short ones. How?

The Forbes Index 36

The Forbes/Barra

Wall Street Review 133

Forbes/TUCS Institutional

Portfolio 134

Streetwalker 148

Handy & Harman; Fisher-Price; textile stocks; Giddings & Lewis.

LAW AND ISSUES

On The Docket: Conditional Banking 88

By James Lyons

The fine print in loan documents doesn't always mean what it says.

Shakedown? 98

By William Tucker

Lawyers have figured out how to get fat off technology firms' volatile earnings.

One by one they go
the way of B. Altman.

70



"I have little use for schools. Practice
starts with apprenticeship," says Drucker.

72

Le soap exceptionnel
Coming here soon.

102



COMPUTERS/COMMUNICATIONS

Teamwork 106

By Kathleen K. Wiegner

Small technology companies' teaming with big companies often ends in disaster. But not Pyramid Technology's deal with AT&T.

Telephone Survivor's Guide 107

By Gary Slutsker

How to protect against phone system outages.

Dick Tracy Computing 110

By Julie Pitta

Chips that can put a phone in a watch can also connect a PC to the office. Also: Commentary by Esther Dyson.

SCIENCE & TECHNOLOGY

Whose Invention Is It Anyway? 114

By Gary Slutsker and David C. Churbuck

Thomas Edison's inventions would not get a U.S. patent today. Are we stifling innovation? Also: Commentary by Michael Gianturco.

MARKETING

Le Soap 102

By Joshua Levine

Can a "pan-European" soap opera cooked up by a U.S. ad agency make it big on the Continent and here?

PERSONAL AFFAIRS

Let Your Fingers Do The Banking 122

By David C. Churbuck

Home banking had to wait for cheap PCs and touch-tone phones. Also: Beware the au pair.

The War Between The Collectors 126

By Christie Brown

Charles Pankow still doesn't know very much about art, but he has learned the perils of dealing with art consultants.

Careers: Motorhead 128

By Christopher Palmeri

Joe Amato juggles hot-rodding with a \$125 million business.

FACES BEHIND THE FIGURES

Fredric Tordella 130

MTB Banking

John Korff 130

Pathmark Tennis Classic

Norman Braman 131

Luxury car dealer

Al Teller 131

MCA Music Entertainment Group

COLUMNISTS

Observations 79

Thomas Sowell

Capital Markets 141

Ben Weberman

The Contrarian 142

David Dreman

Wall Street Irregular 143

Mark Hulbert

Financial Strategy 144

A. Gary Shilling

Business Strategy 145

Alan Reynolds

Editorial index is on page 8

Cover photo by Jonathan Levine

DEPARTMENTS

Side Lines 10

Follow-Through 12

The Informer 16

Readers Say 20

Fact and Comment 23

Other Comments 28

Commentary 33

What's Ahead For Business 35

Flashbacks 151

Thoughts 152

August 19, 1991

Volume 148

Number 4

Forbes (ISSN 0015 6914) is published biweekly except weekly during two weeks in October, by Forbes Inc., 60 Fifth Ave., New York, N.Y. 10011. Second-class postage paid at New York, N.Y. and at additional mailing offices. Canadian second-class postage paid, permit number 9490. GST # R125769513. Subscription \$52 a year, U.S.A. Postmaster: Send address changes to Forbes, 60 Fifth Ave., New York, N.Y. 10011.

Copyright © 1991 Forbes Inc. Title is protected through a trademark registration in the U.S. Patent Office.

Forbes does not supply back issues or copies of individual articles. Requests for permission to reprint should be sent to the Permissions and Reprints Department at Forbes. Forbes is indexed in major periodical indexes and can be located in bound copy or microform in major libraries. The full text is available electronically on major database systems.

Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 27 Congress St., Salem, Mass. 01970 to photocopy articles owned by Forbes for a flat fee of \$1.50 per copy per article. Send payment to the CCC stating the ISSN (0015 6914), volume and first and last page number of each article copied. Copying for other than personal use or internal reference, or of articles or columns not owned by Forbes without express permission of Forbes or the copyright owner is expressly prohibited.

Weird science



SIR: Re the cover story "Junk science in the courtroom" (July 8). *FORBES* didn't mention another legal arena where junk science occurs (with little or no challenge as to its scientific validity). In workers' compensation cases where there are psychological injuries, psychiatric evidence can be introduced whether or not it meets legal standards of evidence and proof. Injured workers can find themselves "accused and convicted" of having a pre-existing psychiatric disorder even though they have no psychiatric history, nor is there any research that demonstrates that psychiatrists or psychologists can make valid diagnoses of past conditions. The insurance companies are the financial beneficiaries of this particular form of junk science.

—JOHN F. FIELDER, PH.D.
President
California Institute of Psychology
San Francisco, Calif.

SIR: As a physician who has been the victim of a frivolous lawsuit (later dismissed) and as a scientist involved in research, I cannot agree more with your conclusions. Partially at fault is the contingency-fee structure which has resulted in so many lawsuits.

Despite the bleak picture in the near term, however, public opinion and market forces will eventually bring an end to this predominantly American plague.

—MAHMOUD LOGHMAN-ADHAM, M.D.
Assistant Professor
University of Utah School of Medicine
Salt Lake City, Utah

SIR: How ironic that in the same issue there appeared an article on junk science in the courtroom and the editorial call to eliminate placebo control groups in tests of new drugs (*Fact and Comment*). Placebo control groups are vital. Eliminating them will only lead to precisely the kind of junk science practiced, for example, by the

clinical ecologists rightly pilloried in the cover story.

—TERENCE HINES, PH.D.
Ossining, N.Y.

Sin of omission

SIR: Your list of 25 large nonpublic foreign companies (*FORBES*, July 22) failed to include Samsung Group. At the end of last year Samsung Group employed 181,809 people; revenues for the year were \$37,984,000,000. This would have ranked Samsung Group in third place on your list of private foreign companies.

—H.S. LEE
Executive Managing Director
Financial Control Department
The Samsung Group
Seoul, Korea

Samsung should indeed have been ranked third on that list. We're happy to set the record straight.—ED.

A qualified success

SIR: Re Fact and Comment (June 24). The U.S./Japan semiconductor trade agreement of 1986 was a qualified success, not a disaster as you allege. The Japanese were caught and convicted of dumping in the U.S., and finally stopped.

In Japan, foreign market share has risen from about 8.5% to 13.3%. This is worth about \$850 million annually in additional revenue. The new agreement continues the momentum. There is deterrence from dumping and a commitment from the Japanese to open their market, reaching the 20% minimum goal by the end of 1992. This market share would imply over \$2 billion in increased business.

—BEN ANIXTER
Vice President
External Affairs
Advanced Micro Devices
Sunnyvale, Calif.

Price discrimination?

SIR: Since World War II many of our nation's leading colleges and universities have awarded financial aid solely on the basis of need. There are those (Thomas Sowell, *FORBES*, June 24) who describe this policy as "price discrimination"—but if so, it is a most

unusual kind. These schools do offer "discounts" to almost half their customers, but they simultaneously turn away thousands of other potential customers willing to pay even more than the "list price."

The "overlap" meetings that so concern Mr. Sowell were intended simply to assure that each school had made as accurate an assessment as possible of each student's need. The recent antitrust settlement is likely to result in less accuracy in assessing need, and may lead to some erosion over time in the commitment of these institutions to policies of need-only.

—ROBERT K. DURKEE
Vice President for Public Affairs
Princeton University
Princeton, N.J.

Full speed ahead

SIR: In the International Billionaires issue (July 22) *FORBES* indicates that Freudenberg is "pruning" its oil seal and vibration damper business. This is totally inaccurate. In fact, Freudenberg and its affiliates are the largest producers of oil seals in Europe, the U.S. and Japan. Additionally, we are a world leader in vibration dampening technology.

Please be assured that Freudenberg and Freudenberg-NOK are totally committed to expanding our worldwide leadership position in oil seals and vibration dampers.

—JOSEPH C. DAY
President & Chief Executive Officer
Freudenberg-NOK
Plymouth, Mich.

Eastern Europe

SIR: Re your recent editorial on Eastern Europe (*Fact and Comment*, July 8). I fully share your criticism of the IMF and I agree that Western assistance has been inadequate. I would add that it has also been incoherent; whereas Poland got an \$18.5 billion debt forgiveness, Czechoslovakia and Hungary have gotten nothing. Ultimately what will defeat East Europe's aspirations is not the lack of financial assistance but the refusal of the G-7 to let them join the world trading system on a reasonable basis.

—PETER RONA
New York, N.Y.

THE FORBES INDEX

BY TIMOTHY DODMAN

The Forbes Index (1967=100)



The recession is over—provided the government doesn't make a sharp downward revision in the second-quarter Gross National Product. The preliminary result shows that the economy grew at a 0.4% annual rate in the second quarter. This is a weak, but promising, start to the much anticipated recovery. Other good signs: Personal income rose a strong 1% in June, and housing starts increased 5.7% from May to June. The Forbes Index shows a preliminary 0.4% gain for June. If this stands, it will be the largest monthly advance since February 1989.

Other key rates

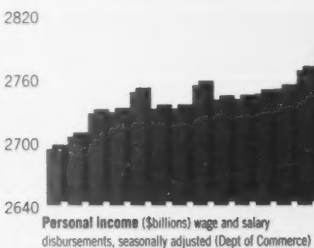
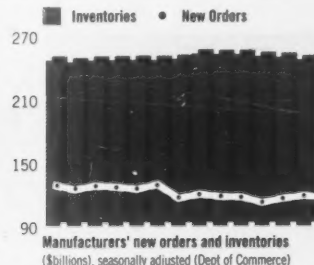
Other key rates	Source	Status
Prime rate	Chase Manhattan Bank	8.5%
Auto sales year to date vs 1990 ¹	Ward's Automotive	-11.3%
Index of leading indicators May vs Apr	Dept of Commerce	0.8%
Trade balance 12 months ended Apr 1991	Dept of Commerce	-\$85 bil
All-commodity producer price index June vs May ²	Dept of Labor	-0.2%
GNP 2nd quarter vs. 1st—annualized growth	Dept of Commerce	0.4%
M2 (3-month change)—annualized growth ³	Federal Reserve	3.5%

¹ U.S.-based manufacturers, excludes imports, as of 7/20/91. ² Wholesale goods. ³ Includes M1 (public currency and checking deposits) plus savings accounts and money market funds.

Index components

The Forbes Index is a measure of U.S. economic activity composed of 8 equally weighted elements: Total industrial production, new claims for unemployment compensation, the cost of services relative to all consumer prices, new housing starts, total retail sales, the level of new orders for durable goods compared with manufacturers' inventories, personal income, total consumer installment credit.

To measure these 8 elements, FORBES monitors 10 series of U.S. government data. The last 14 months' data for each series are presented below.



M J J A S O N D J F M A M J

M J J A S O N D J F M A M J

M J J A S O N D J F M A M J

There's lots of gloom in the media industry these days. But lots of opportunity, too.

Media wars

By Dana Wechsler Linden and Vicki Contavespi

"IT'S MURDER OUT there," says Metro-media Chairman John Kluge, describing the current slump in advertising revenues that has afflicted the media business. "It's becoming more of a commodity business. The current problems aren't going to be eradicated in six months."

Gloom envelops broadcasting and publishing these days. Even Warren Buffett, with more than a billion dollars invested in media stocks, has said: "Media businesses will prove considerably less marvelous than I, the industry or lenders thought would be the case only a few years ago."

But while the media business is in turmoil, nobody thinks it is going to die. Change, yes, and change always creates opportunities. Given that newspapers and network TV are in decline, where are the new opportunities in broadcasting and publishing?

The answers are clear: The future looks brightest for publishing and broadcast media that reach target audiences for advertisers more efficiently than broad-based media like newspapers and network TV can; and to media that can get the reader or viewer to pay a major part of the freight.

The new winners will be radio stations, specialized cable networks, tightly targeted magazines, new kinds of in-store advertising and even the old-fashioned weekly newspapers. Rather than appealing to huge, broad audiences, these appeal to specialized audiences—what advertisers want in these days of fragmented markets. Some are services that require the readers and viewers to bear a substantial part of the cost, thus assuring advertisers that the customers really want them.

Weekly newspapers, though they currently get not even 3% of total U.S.

advertising spending, are gaining market share because of their ability to deliver specific communities rather than broad geographical areas. Advertising spending on weeklies has grown at nearly double the rate of dailies for the past three years in a row, and hit \$3.3 billion last year. "You can find a niche market with [weeklies]," says News Corp.'s Rupert Murdoch. "I've got ideas about starting a couple of them myself."

Weeklies typically use someone else's printing presses, and so can be started for as little as half a million dollars. Most employ nonunion employees, thus avoiding union featherbedding.

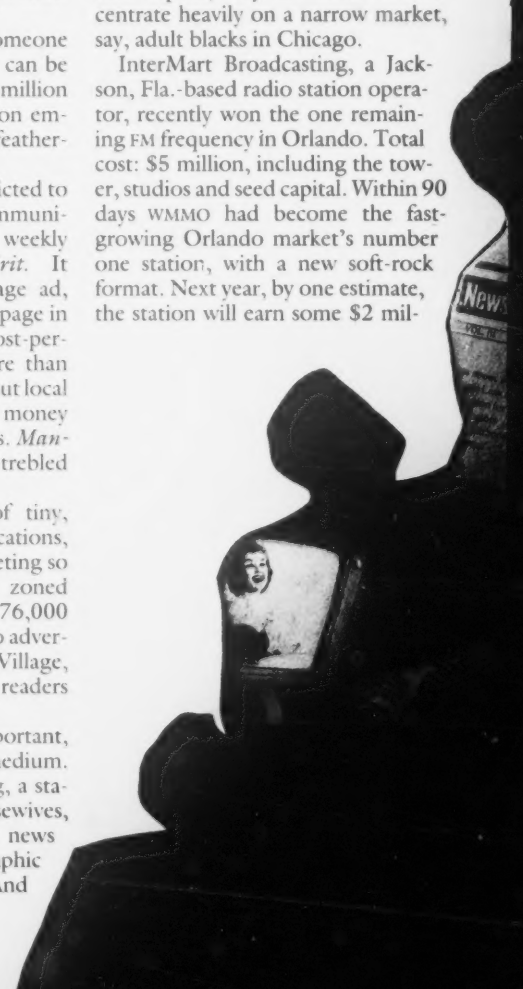
These weeklies are not restricted to small, rural or suburban communities. Take New York City's weekly newspaper *Manhattan Spirit*. It charges \$2,900 for a full-page ad, compared with \$40,000 for a page in the *New York Times*. On a cost-per-thousand-readers, this is more than the *New York Times* charges. But local advertisers are not wasting money reaching readers in the suburbs. *Manhattan Spirit's* ad pages have trebled in the last six years.

Manhattan Spirit, part of tiny, publicly held News Communications, Inc., has found its niche marketing so powerful that it has begun zoned editions, breaking down its 76,000 Manhattan-wide circulation so advertisers in, say, Greenwich Village, won't waste their money on readers from the Upper East Side.

If slicing the market is important, radio does it as well as any medium. Through astute programming, a station can appeal to teens, housewives, sports fans, business people, news junkies—almost any demographic grouping you can think of. And

radio isn't threatened like other media, since most people listen to radio in their cars. "We [radio] invented narrowcasting before there was such a word," says William Pearson of New York's Broadcasting Partners, which owns a group of five radio stations in cities like Chicago and Dallas. Because radio stations are relatively cheap to operate and require relatively little capital, they can afford to concentrate heavily on a narrow market, say, adult blacks in Chicago.

InterMart Broadcasting, a Jackson, Fla.-based radio station operator, recently won the one remaining FM frequency in Orlando. Total cost: \$5 million, including the tower, studios and seed capital. Within 90 days WMMO had become the fast-growing Orlando market's number one station, with a new soft-rock format. Next year, by one estimate, the station will earn some \$2 mil-



lion from operations.

As for TV, cable is the principal narrowcasting channel. This medium's ad revenues rose 17% last year, to \$1.8 billion, while broadcast TV advertising edged up only 5% (but to \$27 billion). Every cable network has its own demographic fingerprint—whether retirees or urban professionals. And rates less than half those of the broadcast networks.

Cable is a business where investors don't have to worry

about fragmented advertising, since cable operators get most of their revenues from the growing number of subscribers. By one estimate, cable's 53 million subscribers will grow to 61 million by 1995, and to 68 million by the year 2000.

These growing legions of cable viewers will have ever more entertainment and information choices. Thus advertisers will get even better opportunities to aim their messages precisely—and cable operators will have new opportunities to charge viewers. Within several years, Tele-Communications, Inc. of Denver expects its systems to be able to carry 300 to 400 channels. Every hour spent watching cable is one hour less spent on network TV and, perhaps, on reading.

"The day they brought out the remote control unit," says Metromedia's Kluge, "any monopolistic aspect of this [the broadcast] business was lost forever." One

winner in the war for viewers is Time Warner's Home Box Office. In homes with HBO, the cable channel outdrew all three networks on Saturday nights with a number of original programs like *Tales from the Crypt*. This fall, broadcast network advertising rates are expected to fall by at least 5%—after years of annual increases that averaged close to 10%.

Without the power to increase prices, CBS, for one, is in a very tough spot. By one estimate, the network's operating revenues at current ratings levels—about \$2.5 billion—will not cover its estimated \$2.6 billion in operating costs.

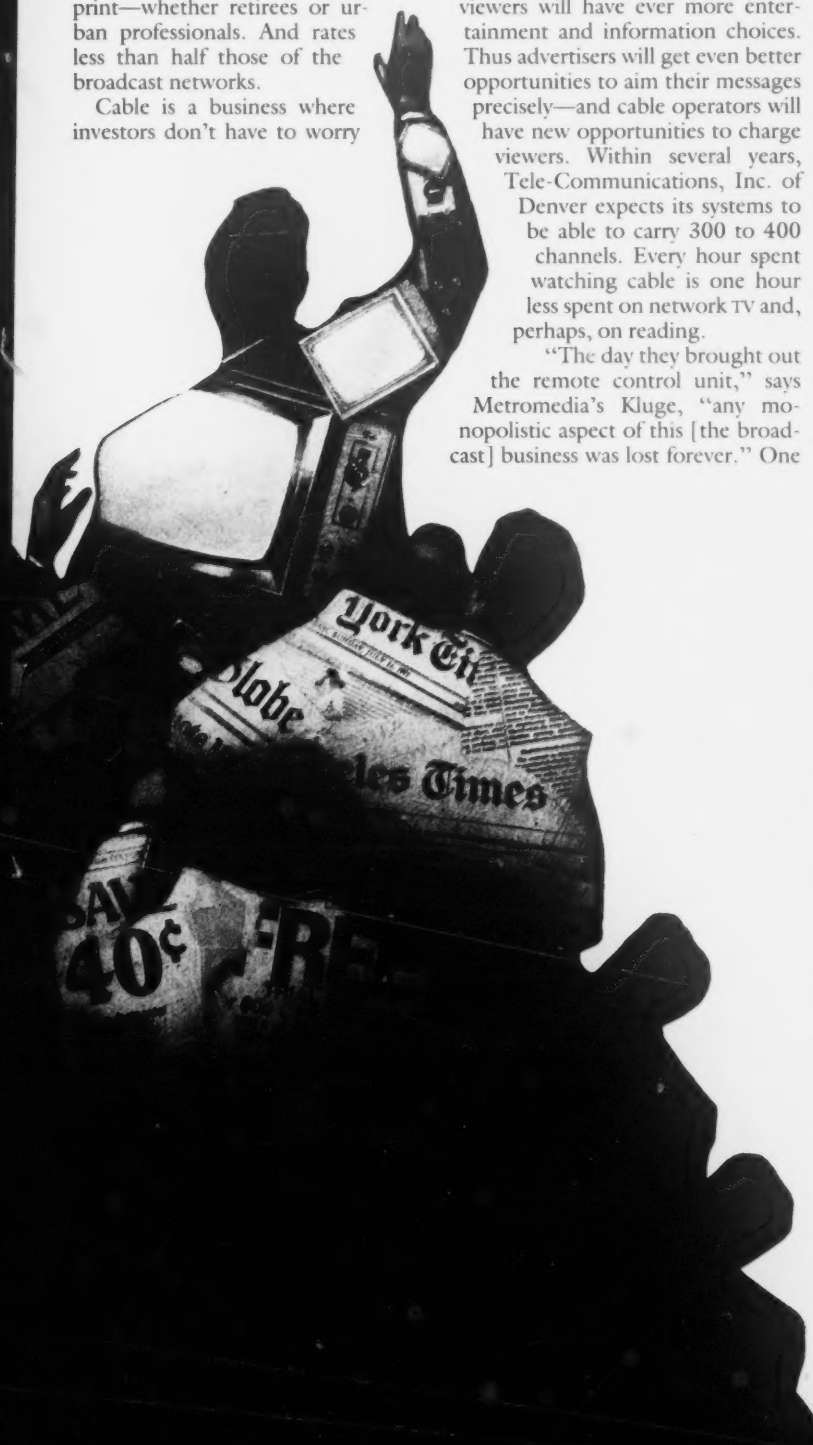
Opportunities in the big, broadly diversified companies do exist. Time Warner is a global media and entertainment company with publishing (*Time*, *Sports Illustrated*, etc.), film (Warner Bros. and Lorimar Television), cable (HBO) and music recording and publishing (Elektra, Atlantic and Warner Bros. labels).

Cap Cities/ABC has the ABC network with 227 primary affiliates and ABC radio with some 3,050 affiliates. It also has cable programming interests and puts out specialized publications like *Women's Wear Daily*, *M inc.* and *Institutional Investor*.

What about so-called alternative media—those out-of-home vehicles such as Whittle Communications' Channel One school news program, or Turner Broadcasting's Airport Channel for airport-trapped travelers to watch on special TV sets in departure lounges?

Alternative media (sometimes called "in-your-face media") try to put ads where the target audience—and only the target audience—is sure to pass by. Privately held media conglomerate Cox Enterprises (1990 revenues, \$2 billion) gets over 10% of its newspaper division revenues from the Cox Target Media group. The division includes, among other things, an in-store radio advertising business. Cox also has invested in the Clipper, booklets of glossy coupon ads produced in regional editions and mailed to 15 million people.

Heritage Media (1990 revenues, \$204 million) is one public company that's a near-pure play in alternative media. It was formed in 1987 to operate TV and radio stations. Heri-



Public companies scrambling for a piece of the advertising pie

Company/media properties	Recent price	Price/cash flow per share	Five-year peak price	Five-year peak price/cash flow per share	Current yield	Revenue 1990 (\$mil)
Capital Cities/ABC/diversified	47 1/4	12.47	633 (7/90)	16.64	NM	\$5,390
CBS/radio, TV	164 1/4	28.30	226 1/4 (9/87)	28.65	0.6%	3,260
Comcast Corp/cable, cellular	14 1/4	NM	197 1/4 (10/89)	NM	1.0	657
Dow Jones & Co/newspapers, info services	25 1/2	11.09	56 1/4 (3/87)	20.63	3.0	1,720
Gannett Co/newspapers	43 1/4	12.15	56 1/4 (8/87)	18.97	2.8	3,440
Heritage Media Corp/radio, TV, in-store ads	3 1/2	NM	5 1/4 (4/89)	NM	—	204
McGraw-Hill/books, business periodicals	57	11.66	84 1/2 (9/87)	18.33	3.9	1,940
Multimedia, Inc/diversified	29	12.66	36 (8/89)	17.91	—	481
News Corp/diversified	12 1/4	4.65	35 1/4 (4/87)	12.91	0.6	6,840
The New York Times Co/newspapers, magazines, TV	22	8.87	49 1/4 (6/87)	16.82	2.5	1,780
Park Communications/radio, TV, newspapers	14 1/2	9.18	25 (8/89)	15.92	—	160
Tele-Communications/cable	13 1/2	12.27	21 1/4 (10/89)	27.03	—	3,630
Time Warner/diversified	84 1/4	13.87	182 1/4 (6/89)	38.15	1.2	11,520
Times Mirror Co/newspapers, books, cable	30 1/4	9.29	52 1/4 (8/87)	14.85	3.5	3,620
Turner Broadcasting System (B)/cable	14 1/4	19.69	20 (8/89)	17.00	—	1,390
United Artists Entertainment Co/cable, theaters	13 1/4	28.99	23 1/4 (9/89)	47.5	—	1,460
Westwood One/radio	2	NM	32 (8/87)	29.9	—	146

NM: Not meaningful. Sources: Value Line Investment Survey; FORBES.

Media massacre: Stock prices and cash-flow multiples are under heavy pressure.

tage got into the in-store advertising business by buying ActMedia in early 1989 and POP radio in late 1990. POP radio has the country's leading in-store radio business, which plays music and commercials in supermarkets and other stores. ActMedia sells in-store print advertising, with ads on shopping carts and shelves. It also organizes in-store promotions.

Heritage's biggest new product is an electronic coupon dispensing machine. The machines are in only 400 stores right now but will begin a national rollout into 8,000 stores by year-end. The machines could generate \$30 million of revenue and \$13 million of cash flow by 1992.

Turner Broadcasting, too, is moving headlong into alternative media. Its vehicles: the Airport Channel and the Checkout Channel—TVs blaring at people waiting in supermarket checkout lines.

Cable spot advertising is a fertile new field for targeted media. This form of advertising, which places ads on local systems, is currently worth about \$500 million. John Davison, formerly a sales executive with NBC, has founded a company called AdExpress to make it easier to sell spot

advertising to local cable systems.

Currently, local cable systems collect only some \$50 million from national advertisers, or less than 1% of the national spot market for all television, even though cable has 20% of the national TV audience. One reason is the logistical nightmare of selling cable. "If you wanted to reach the top 30 markets in the U.S., you'd have to place ads on 600 different systems," says Michael Gorman, AdExpress' chief financial officer.

So AdExpress has come up with an innovative delivery system, a box that is placed with each cable system. Rather than sending out videotaped commercials, AdExpress will be able to send, automatically, by satellite, the commercials that national advertisers want to run. In effect, selling cable will be as easy as selling spots on national network TV.

The company's startup investment is \$20 million to \$30 million, most of that for the boxes. So far, the money has been raised from private investors, who include: Neil Austrian, former head of Showtime and the Doyle Dane Bernbach ad agency; Ancil Payne, former chief executive officer of Seattle's King Broad-

casting; and Morton Meyerson, who helped Ross Perot build Electronic Data Systems.

Magazines are also encountering the brave new world of target marketing. Thirty years ago, newsstands were dominated by a few national magazines, including *Look*, *Reader's Digest* and the *Saturday Evening Post*. Some of the old titles are still around, but 2,500 new ones joined them in the last five years alone—with such esoteric names and subjects as *Mobile Office*, *Africa Monthly* and *Wisconsin Greyhound Racing*.

Broader-interest national magazines are trying to adjust, too. *Time*, *Newsweek* and *U.S. News & World Report* offer so-called selective binding to allow advertisers to place their ads in only those magazines going to targeted subscribers—such as homeowners, women or the elderly.

"I don't think there'll be any more big titles," says News Corp.'s Murdoch, who in recent years launched *Mirabella* (for \$20 million) and *Automobile* (for \$7 million). "The more focused the magazine, the more satisfying it will be to its target audience."

In adversity, there's always opportunity.

Some 40 U.S. blue-chip stocks are still off-limits to many state and local pension funds because of the companies' South African ties. When the laws change, will the money move?

Off-limits!

By Tatiana Pouschine with Amy Feldman

PRESIDENT BUSH has lifted sanctions against South Africa, but 27 states, 88 cities and 24 counties still have on the books their own versions of anti-apartheid policies restricting investments by their pension funds in stocks of companies doing business with South Africa.

The eight largest cities—New

York, Los Angeles, Chicago, Houston, Philadelphia, San Diego, Detroit and Dallas—have divestment policies. Big money is involved. New York City alone has \$40 billion in pension assets under management.

New Jersey's director of investment, Roland Machold, who oversees the state's \$35 billion public em-

ployees' pension funds, figures that since August 1985, when most New Jersey funds were forced to start divesting, the ban has cost the funds at least \$200 million in otherwise unnecessary commissions and opportunity costs, especially the latter. "At one point," reports Machold, "we had 3% of RJR Nabisco, all purchased

Today's "no-nos," tomorrow's buys?

Company*/business

Recent
price

—EPS—
latest 1991
12 mos est

P/E
1991
est

Company/business

Recent
price

—EPS—
latest 1991
12 mos est

P/E
1991
est

Abbott Laboratories/health care	51%	\$2.30	\$2.56	20.0
American Cyanamid/diversified chemicals	64%	3.88	4.07	15.8
Avery Dennison/office products	23 1/4	-0.02	1.43	16.3
Baker-Hughes/oilfield equip & svcs	24%	1.20	1.37	18.1
Borden/food processing & chemicals	34%	2.46	2.63	13.2
Bristol-Myers Squibb/pharmaceuticals	79%	3.49	4.00	20.0
Caterpillar/machinery	49 1/2	0.78	-0.43	NM
Chevron/oil	72%	6.36	5.46	13.2
Colgate-Palmolive/household products	38 1/4	2.35	2.56	14.9
Crown Cork & Seal/containers	83%	3.76	4.20	19.8
Deere & Co/machinery	53 1/2	2.87	1.76	30.2
Dresser Industries/oilfield equip & svcs	21 1/4	1.14	1.14	18.6
El du Pont de Nemours/chemicals	46%	3.38	3.07	15.1
Echlin/auto parts	14	0.82	0.74	18.9
Gillette/personal care	37%	1.70	1.95	19.4
Harnischfeger Industries/machinery	20%	2.18	2.00	10.4
Ingersoll-Rand/machinery	50 1/2	3.24	2.91	17.4
Intl Flavors & Frag/specialty chemicals	78%	4.25	4.48	17.5
International Paper/paper & forest prods	69 1/2	4.76	4.36	15.9
Johnson & Johnson/health care	87%	3.95	4.38	19.9

Kellogg/food processing	103	\$4.72	\$4.91	21.0
Kimberly-Clark/paper & forest products	100	5.45	6.27	15.9
Eli Lilly/pharmaceuticals	72%	4.09	4.64	15.7
Minn Mining & Mfg/office prods	89%	5.77	5.78	15.5
Monsanto/chemicals	72 1/2	4.07	4.81	15.1
Nalco Chemical/specialty chemicals	27%	1.74	1.79	15.5
Parker Hannifin/industrial equip	27%	1.86	1.50	18.3
Pfizer/pharmaceuticals	58%	2.42	2.73	21.5
Phelps Dodge/metals & mining	70 1/2	12.15	8.86	8.0
Premark International/housewares	28%	1.54	2.22	12.7
Raytheon/aerospace & defense	84%	8.57	9.05	9.3
Royal Dutch Petroleum/oil	81%	8.61	7.15	11.4
Schering-Plough/pharmaceuticals	51	2.63	2.97	17.2
Schlumberger Ltd/oilfield equip & svcs	66%	2.42	2.89	23.1
Texaco/oil	64%	5.54	5.26	12.2
Timken/industrial equip	27	1.35	1.18	22.9
Union Camp/paper & forest products	46%	2.97	2.01	23.0
Union Carbide/chemicals	20%	2.15	1.49	13.6
United Technologies/aerospace & defense	48	5.11	2.73	17.6
Upjohn/pharmaceuticals	43%	2.59	2.70	16.2
Warner-Lambert/health care	67%	3.75	4.18	16.2

*South African affiliation confirmed by anti-apartheid monitor Investor Responsibility Research Center, based in Washington, D.C. NM: Not meaningful.
Source: The Institutional Brokers Estimate System, a service of Lynch, Jones & Ryan.

These U.S. firms still have ties with South Africa. Much public money can't touch them—but would if only it could. Buys? Some of the oil, drug and manufacturing stocks.

South Africa

before the takeover, and we had to sell."

Has being off-limits to public pension funds hurt the stocks? The evidence is ambiguous. Merck, regarded as clean by South Africa boycotters, trades at 22 times 1991 estimated earnings. But Pfizer also trades at about 22 times 1991 estimated earnings, even though it is on the banned list. Other restricted drug companies, like Eli Lilly and Upjohn, trade at much lower multiples.

Probably the safest thing one can say about the bans is that many pension fund managers would like them lifted—they don't like to be told what they can or cannot buy. Dale Hanson, chief executive of California's employee retirement funds, oversees \$64 billion in assets, 45% of which is equities. He estimates that divestment has cost his funds between \$600 million and \$750 million in commissions and opportunity costs.

Hanson says he would like to own some of the stocks on the restricted list, particularly pharmaceuticals. Roland Machold agrees with Hanson on the pharmaceuticals, and says he would also buy Du Pont, Monsanto, Caterpillar, Ingersoll-Rand, Cooper Industries and Minnesota Mining & Manufacturing if the local law allowed him to.

How soon might the local laws be repealed? Probably not right away. The Comprehensive Anti-Apartheid Act of 1986, which President Bush has just lifted, spelled out conditions for its repeal. But unlike that federal law, most of the 140 state and local laws that restrict investment in and business ties with South Africa don't specify timetables or conditions for their ending.

Most state and city legislators will probably dither, rather than risk seeming soft on apartheid. However, Herman Cohen, Assistant Secretary for African Affairs at the State Department, recently said that the Justice Department was considering steps to get states and cities to follow the President's lead on South Africa.

Presence on this list is no guarantee that a stock is undervalued. But it would be reasonable to expect at least a flurry of activity in many listed stocks, both in anticipation and after the fact, as bans are lifted.

Brown rice for dogs? Don't laugh. Smart marketing and pampered pooches have transformed the tired pet food industry into a gold mine, and created yet another great American fortune.

Mom's cooking was never like this

By Matthew Schifrin

SUPERPREMIUM pet foods are enlivening a market most people thought was going to the dogs. From nowhere, these superpremium foods for yuppies' puppies (and kitties) now account for \$1.5 billion of the \$7.5-billion-a-year U.S. pet food market. Smaller brands like Science Diet and Eukanuba have been growing at over 25% a year. By contrast, the major producers—Ralston Purina, Nestlé, Quaker Oats and H.J. Heinz—have seen sales growth stagnate at around 5% a year. Now they are rushing into the market.

"We hear of a new brand every few weeks," says Richard Covello, owner of New York's small chain of Pet Nosh stores, which carry 25 different manufacturers' pet foods. One brand Covello carries, Natural Life Pet Products, claims its dog food is packed with American-grown lamb, brown rice and special minerals; it is touted as "health food for adult dogs that have sensitive skin or diet-caused allergies." California-based Nutro Products' Max dog food is advertised as being made of chemical-free chicken meal with no heads, feet or intestines. It's probably no healthier than other foods, but what self-respecting young urban professional wants to deal with chicken heads and intestines? Price: \$30 for 40 pounds.

The two biggest producers of superpremium pet foods are Hill's Pet Products, a division of Colgate-Palm-



Superpremium pet food buyer
Is it worth a dollar a pound?

olive, and privately held Iams Co. of Dayton, Ohio. Each has chosen a different route to the same strategy—getting a group with authority to back the product's claims.

Hill's route leads through the offices of the country's veterinarians. In

When athletes make more money from endorsements than from salaries and prize money, it helps to develop celebrity status. Meet two of the world's richest self-made teenagers.

Madonna is the model

By Peter Newcomb

THE YOUNG CELEBRITY at last appeared, a fashionable 45 minutes late. A barrage of flashbulbs and a sea of microphones. Movie star? Madonna? Nope. Just a normally attractive 17-year-old girl—who happens to be a whiz of a tennis player.

Having already won two of the three Grand Slam tennis tournaments held so far this year, Monica Seles, the youngest woman player ever to hold the number-one ranking, should easily earn over \$1.5 million in 1991. That's just on the court. Off the court? Four times that amount. Seles has multimillion-dollar endorsement deals with Perrier, racketmaker Yonex, Canon, tennis shoe company Fila and Matrix hair care. Then there will be appearance fees at other exhibitions. All told, Seles should earn over \$7.5 million this year, placing her at the 12th spot on this year's *FORBES* list of the world's highest-paid athletes (see table, p. 82).

So, she's a hell of a tennis player and probably one of the richest teenagers in America. Does that explain the media frenzy? Not quite. Seles also seems to have a flair for publicity. The world's top-ranked women's tennis player withdrew from Wimbledon in June three days before the prestigious tournament kicked off. This outraged tennis purists but got everybody's attention. Taking a page from the book of her idol, Madonna, Seles created a continuing media event out of a one-time happening. In announcing her withdrawal, Seles vaguely cited a "minor accident," and then vanished, leaving the British

press to speculate on the real circumstances behind her pulling out—and leaving a breathless public wondering when she would surface again.

After four weeks of hiding out, Seles scheduled a press conference at the Pathmark Tennis Classic in Mahwah, N.J. She got lots of ink and tube time for disappearing. Much more for reappearing. The young player arrived in the sweltering tent clutching her pet terrier, Astro—photo opportunities galore. Says former women's tennis champion Tracy Austin: "This is more like Hollywood."

It is indeed, but Seles didn't start it. Billie Jean King did with her 1973 battle-of-the-sexes match against Bobby Riggs. John Korff, owner and tournament director of the Pathmark Tennis Classic, at one time worked for Billie Jean King. "Billie Jean King and Bobby Riggs put women's tennis on the map," Korff says. "That match was the watershed."

But the big money didn't go to King; it went to her successors. This year's prize money for the women's tour will exceed \$24 million, up from \$900,000 at the time of the King-Riggs match. Had King had the same kind of year in 1973 that Steffi Graf had in 1988—winning all four Grand Slam events and the Olympic gold medal—she would have been lucky to earn \$150,000. Graf earned ten times that amount in prize money alone.

But prize money is the least of it. With media attention come endorsement offers. Especially when the game goes global. An American sport at its birth, women's tennis has in-



Focus on Seles



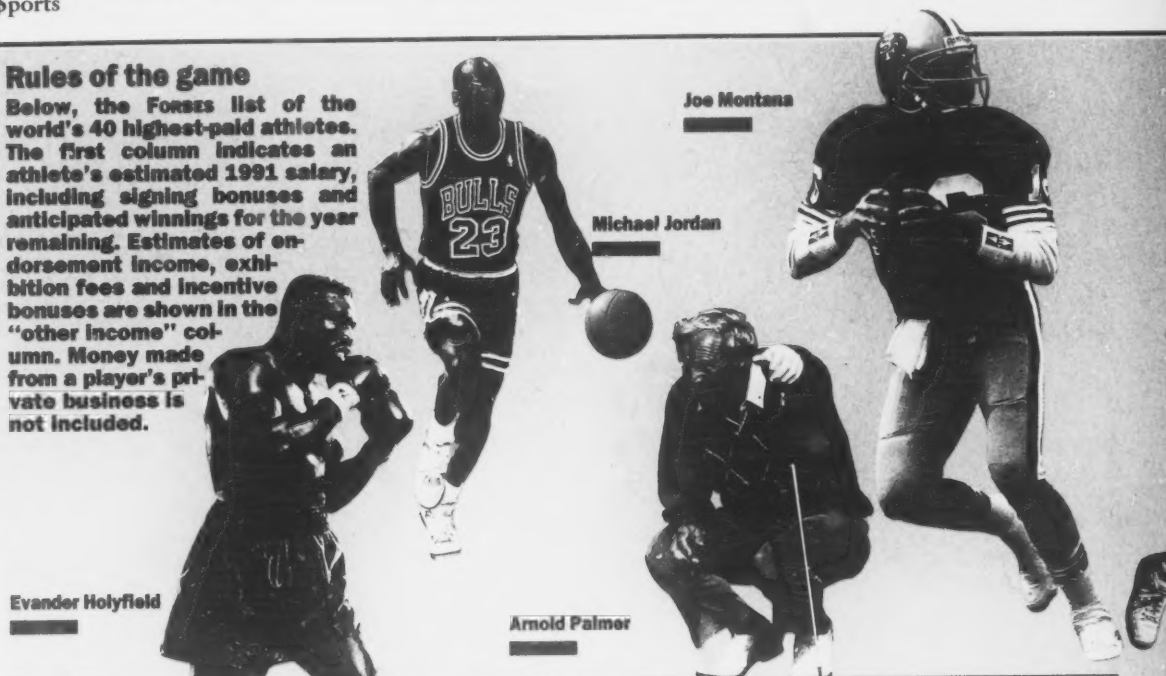
Focus on Seles

ABOVE:
Tennis has-beens Bobby Riggs
and Billie Jean King
**Their match put women's
tennis on the map.**

RIGHT:
Seventeen-year-old tennis
celebrity Monica Seles

Rules of the game

Below, the *Forbes* list of the world's 40 highest-paid athletes. The first column indicates an athlete's estimated 1991 salary, including signing bonuses and anticipated winnings for the year remaining. Estimates of endorsement income, exhibition fees and incentive bonuses are shown in the "other income" column. Money made from a player's private business is not included.



Rank	Athlete	Sport	Salary or winnings	Other income (\$million)	Total
1	Evander Holyfield	boxing	\$60.0	\$0.5	\$60.5
2	Mike Tyson	boxing	30.0	1.5	31.5
3	Michael Jordan	basketball	2.8	13.2	16.0
4	George Foreman	boxing	14.0	0.5	14.5
5	Ayrton Senna	auto racing	12.0	1.0	13.0
6	Alain Prost	auto racing	10.0	1.0	11.0
7	Razor Ruddock	boxing	10.0	0.2	10.2
8	Arnold Palmer	golf	0.3	9.0	9.3
9	Nigel Mansell	auto racing	8.0	1.0	9.0
10	Jack Nicklaus	golf	0.5	8.0	8.5

Rank	Athlete	Sport	Salary or winnings	Other income (\$million)	Total
11	Larry Bird	basketball	\$7.4	\$0.5	\$7.9
12	Monica Seles	tennis	1.6	6.0	7.6
13	Joe Montana	football	3.5	4.0	7.5
14	Stefan Edberg	tennis	1.4	6.0	7.4
15	Greg Norman	golf	0.4	7.0	7.4
16	Steffi Graf	tennis	1.3	6.0	7.3
17	Andre Agassi	tennis	0.8	6.5	7.3
18	Boris Becker	tennis	1.2	6.0	7.2
19	Wayne Gretzky	hockey	3.0	4.0	7.0
20	Gerhard Berger	auto racing	6.0	1.0	7.0

creasingly become a worldwide spectacle. Seven countries are represented in the top ten women players: Seles is from Yugoslavia, Steffi Graf from Germany, third-ranked Gabriela Sabatini from Argentina and Jennifer Capriati from the U.S. Says Thomas Keim, director of event marketing for Kraft General Foods, the women's tennis tour's umbrella sponsor: "You've got support from places that the sport never had."

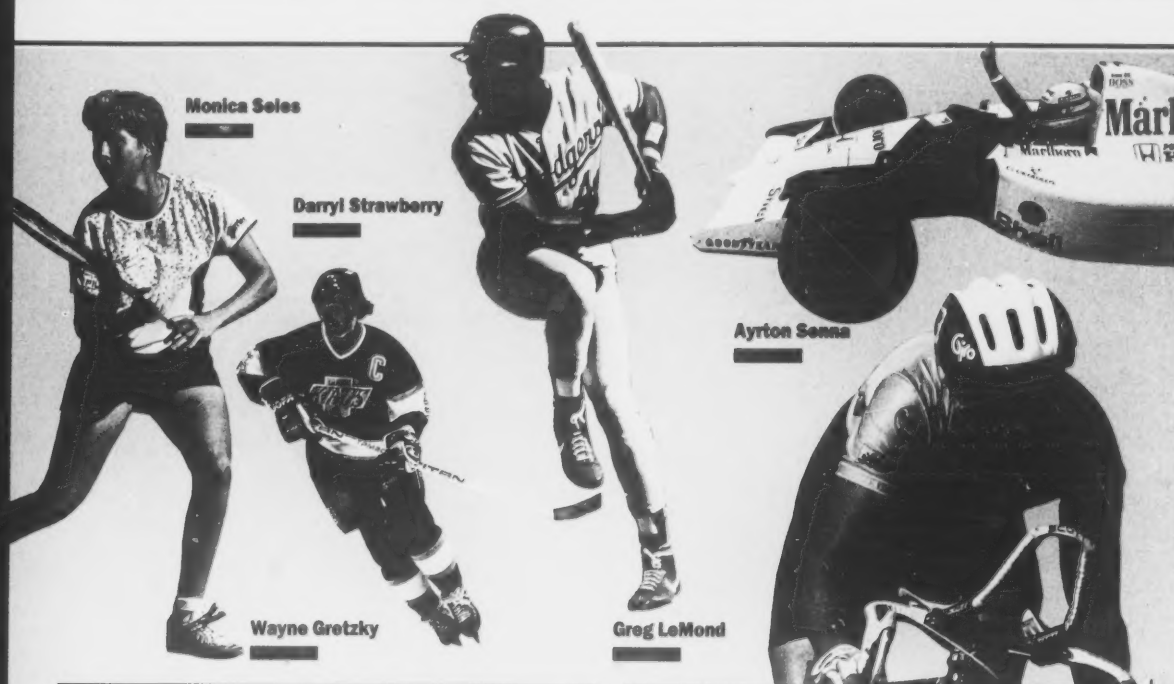
Not only does the popularity now cross national boundaries, but it is also attracting the attention of a whole new generation. With the top women's tennis stars averaging 19 or 20 years of age, these kids reach a

whole different group of consumers. Where Jack Nicklaus and Arnold Palmer talk to an older, Cadillac-buying audience, Seles and Capriati speak to the 12-to-35-year-old market, where some of the biggest merchandising dollars are spent. Says Kraft's Tom Keim, "These child stars [are] teenage heroines."

"The women were blessed by having some major advancements in equipment, especially the oversize racket," explains Gerard Smith, executive director of the Women's Tennis Association. "It gave the young women athletes a great deal more power, and the power has substantially helped the women's game." By

contrast, Smith notes, the new-found power has not really improved the men's game. Of all the men's points played at Wimbledon this year, only 30% to 35% of them went beyond three strokes. More than half of the women's points went more than that.

For years the women's tour was dominated by one or two players, making any tournament's outcome somewhat predictable. Not long after her bout against Riggs, Billie Jean King passed the champion's torch to Chris Evert and Martina Navratilova, in whose hands it stayed for over ten years. When viewers tuned in to a women's tennis final, they usually watched a Navratilova-Evert match.

Forbes ■ August 19, 1991



Fifteen-year-old tennis up-and-comer Jennifer Capriati, top, and this year's Wimbledon winner Steffi Graf

Capriati can't legally drive a car alone but will earn over \$5 million this year, while Graf, at just 22, is already a tennis doyenne.



mous decision. Next up? Former champ Mike Tyson, in November. Holyfield's been guaranteed \$30 million for that bout. And if pay television revenues hit even the lowest projections, Holyfield should dance away with over \$60 million for the year.

High on the roster are three Formula One race car drivers. Tops among them is Ayrton Senna, who makes a guaranteed salary of at least \$12 million. These guys take risks for their money: Senna's Formula One car made a high-speed leap 15 feet into the air during a test run a few weeks ago.

Five golfers make the list this year, led by Arnold Palmer and Jack Nicklaus. Australian Greg Norman might be having his troubles on the green this year, but he's still no slouch pitching products. Norman should pull in another \$7 million over what he'll make on the circuit.

When it comes to endorsements, nobody touches Michael Jordan. His Chicago basketball Bulls won the NBA crown this year, making Jordan's high-flying image even more inescapable. His face adorns the Wheaties box. He pitches burgers for McDonald's. He soars past the moon stretching for a bottle of Coca-Cola. And Air Jordan's deal with Nike shoes is still the single best deal in sports, paying the league's premier slam-dunker over \$3 million a year. His video *Michael Jordan's Playground* should sell over 700,000 copies by year-end. Add to that sales of his previous video, *Come Fly With Me*, and Jordan should rake in \$2.5 million in video alone.

Among the new entries on this year's list is baseball slugger Darryl Strawberry. San Antonio Spur David Robinson is poised to succeed Michael Jordan as basketball's premier pitchman. His telegenics and awesome play make him a corporate sponsor's dream, and Nike and Casio, among others, have taken notice.

Off the list falls soccer star Diego Maradona, after testing positive for cocaine and being suspended from the game. Jose Canseco of the Oakland Athletics was briefly the highest-paid player in baseball when he signed a new contract last year and received a \$3.5 million bonus. But with baseball's ever-escalating salaries, Canseco's been left behind.

THE FORBES/BARRA WALL STREET REVIEW

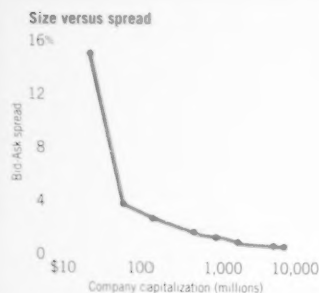
BY ERIC S. HARDY

There may finally be some reason for optimism about the banking industry. Mabon Securities' Brent B. Erensel, who follows the larger bank stocks, predicts that the seemingly unending deterioration in loan portfolios is slowing down significantly. "Asset quality has finally started improving in Texas, and appears to be stabilizing in other areas, like New England," he says. For instance, Erensel thinks that the Pittsburgh-based Mellon Bank is a good example of a recovery stock. Erensel also likes Los Angeles-based First Interstate, which, he believes, is the large bank most likely to benefit from further industry consolidation.

The Barra industry factor for banks (which isolates only those price changes attributed to the banking business) gained 35.4% since the start of the year. The Barra All-US index of more than 5,000 stocks shows an 18% gain (excluding dividends) since the start of the year.

Special focus

Small-company stocks are hot now (see p. 143), but there's a big drawback for the individual investor: high trading costs. Trading in and out of small-capitalization stocks costs two commissions plus the spread between bid and ask prices, which tend to be large. A study by Barra, Inc. finds that the spread, in percentage terms, on stocks with market values of \$50 million or less is 38 times that of stocks with capitalizations of over \$5 billion.



Note: Data for period ending 7/25/91. The Barra All-US index consists of all publicly traded common stocks for which price quotations are available and ordinary shares of foreign stocks trading on U.S. markets. ADRs, REITs and closed-end funds are excluded. ¹ Total return of a portfolio of more than 150 large-capitalization stocks that has high historical earnings growth and has predicted above average earnings growth. ² Total return of a portfolio of more than 300 large-capitalization stocks characterized by low price-to-book ratios, high yields and low price-to-earnings ratios. ³ A dollar-denominated capitalization-weighted index of more than 1,000 stocks from Europe, Australia, New Zealand and the Far East. Source: Morgan Stanley Capital International Perspective. ⁴ Index of 21 commodity futures. ⁵ Knight-Ridder Financial Information. ⁶ During the last two weeks. ⁷ Estimate. Source: Institutional Brokers Estimate System, from Lynch, Jones & Ryan. ⁸ Shows return to the industry factor after controlling for other influences including company size, value and growth characteristics. Multi-industry firms have proportional contributions in two or more groups. Principal source: Barra, Inc., Berkeley, Calif.

The overall market



Closeup on the market

Index or investment	2-week change	% change from	
		1 year	5-year high
Barra All-US index	1.0%	7.5%	-2.0%
Sharpe/Barra Growth index ¹	0.7	12.4	-1.5
Sharpe/Barra Value index ²	1.3	10.1	-1.5
Dow Jones industrials	0.7	2.0	-1.8
S&P 500	1.1	7.0	-2.4
NYSE	1.1	7.3	-2.1
Nasdaq	0.4	10.1	-4.1
Amex	0.9	2.7	-2.2
EAFE ³	3.1	-10.5	-22.4
CRB index ^{4,5}	1.5	-10.9	-23.2
Gold ⁶	-1.0	-1.3	-27.4
Yen ⁷	0.1	-7.7	-15.3
Oil ⁸	10.1	5.7	-47.9

The best and worst performing stocks⁹

Best	Price	2-week change	1991 EPS ¹	Worst	Price	2-week change	1991 EPS ¹
Triton Energy	32 3/8	59%	\$-0.40	York Research	5 1/2	-69%	\$1.03
Roberts Pharmaceutical	15 5/8	37	-0.82	ADC Telecommunications	27 1/4	-33	2.04
Advanta	23 1/8	37	2.13	Weitek	8	-30	0.44
Bank of Boston	10	36	-3.47	HealthSource	18	-29	1.94
Ecolab	27 3/8	35	1.99	Synoptics Communications	26 1/2	-24	1.93

The best and worst performing industry factors¹⁰

Best	2-week change	Since 12/31/90	Worst	2-week change	Since 12/31/90
Liquor	18.6%	38.3%	Beverages	-5.4%	10.6%
Oil Service	4.7	-2.4	Pollution control	-4.8	-1.9
Banks	4.6	35.4	Tobacco	-4.1	36.8
Railroads, transit	4.5	29.4	Life insurance	-3.6	9.6
Soaps, housewares	3.7	17.8	Coal & uranium	-3.1	-8.1

FORBES/TUCS INSTITUTIONAL PORTFOLIO

BY STEVE KICHIN

Who made the most money?

Investment	Value of \$10,000 invested 6/28/81 ¹	Change last quarter
S&P 500	\$42,259	-0.2%
Wilshire Index	37,348	-0.3
Institutional equity account²	35,532	-0.4
Shearson Lehman Govt & Corp	34,508	1.5
Institutional² balanced account²	34,443	0.5
Institutional fixed income account²	32,422	1.8
Treasury index	22,101	1.5

Segment performance and cash flow

Segment	Most recent quarter	
	median total return	shift in institutional holdings
Equity	-0.4%	0.0%*
Fixed income	1.7	0.0*
Cash equivalents	1.6	-6.1
Convertibles	2.7	0.0*
Other ³	1.3	0.0*
Total	0.1	0.0*

Bearish sign: Cash levels are low at the institutions, says George Wolfe, a vice president of Santa Monica, Calif.-based Wilshire Associates, a firm that tabulates data on \$500 billion in pension fund portfolios with its Trust Universe Comparison Service. The TUCS tally of five years ago showed a median 7% of equity portfolios in cash. The current figure is only 5%. Similarly, fixed-income managers have been moving out of cash.

The stock market could not sustain the new highs it hit during the second quarter, but bonds made modest gains. The Shearson Lehman Government/Corporate bond index had a total return (includes reinvested dividends) of 1.5%, while the S&P 500's total return was a negative 0.2% during the quarter. The median TUCS equity portfolio was off 0.4%.

Why did the pros perform so poorly? Wolfe says they weren't exposed to enough value stocks. The Wilshire Small Company Value index (a capitalization-weighted portfolio of several hundred stocks with relatively low P/Es and price-to-book ratios) had a total return of 6.8% last quarter. And the Wilshire Large Company Value index returned 0.6%.

One smallish (in terms of sales) stock the institutions were buying is IVAX Corp., a pharmaceutical firm involved in the research, development and production of drugs for AIDS, Alzheimer's and other diseases. This speculative issue, which had 1990 sales of only \$142 million, rose 46% in the quarter and now has a market value of over \$1 billion.

What the institutions bought and sold

Big stocks⁴

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
General Cinema	3.2%	15	Avery Dennison	2.8%	NM
Hercules	-10.2	19	Beneficial	6.5	10
IVAX	46.2	NM	Centocor	-7.3	NM
Lyondell Petrochemical	13.2	5	Chemical Banking	24.4	14
Merrill Lynch	10.8	13	Compaq Computer	-50.3	6
National Health Labs	7.0	22	Computer Assocs Intl	14.7	12
Norcen Energy Resources	-7.6	12	Laidlaw	-19.5	12
Reader's Digest Assoc	0.8	20	MacMillan Bloedel	7.5	NM
RJR Nabisco	-10.6	NM	Scana	3.9	8
Safeway	-6.4	18	20th Century Industries	14.9	10
Viacom	7.0	NM	US West New Vector	-3.6	NM
Vons Cos	-17.8	19	Williams Cos	1.0	17

Secondary stocks⁵

Stock bought	Total quarter return	P/E	Stock sold	Total quarter return	P/E
Alpha 1 Biomedicals	-13.4%	NM	California Bancshares	10.0%	NM
DeVlieg-Bullard	30.4	9	Celgene	-21.9	NM
First Republic Bancorp	45.7	9	College Bound	13.2	47
Geonex	4.5	22	Cryomedical Sciences	68.8	NM
Graham-Field Health	3.6	27	Curragh Resources	-9.8	23
Insituform Mid-America	-3.4	20	Granada BioSciences	4.2	NM
Integrated Waste Svcs	29.7	28	Interneuron Pharmaceutical	19.4	4
Martech USA	-42.5	11	NBSC	12.4	69
Offshore Pipelines	-40.0	NM	Neolens	29.2 ⁶	10
T Cell Sciences	-30.5	NM	PMC Capital	12.4	13
York Research	-11.5	18	Possis	-7.0	NM
Zila	10.0	NM	Tonka	-20.4	13

¹Total return. ²Includes cash. ³Real estate, foreign investments, venture capital, guaranteed income contracts. ⁴Stocks with \$1 billion or more in market capitalization at start of quarter. ⁵Stocks with market capitalization between \$40 million and \$200 million at start of quarter. ⁶Less than 0.05 percent. NM: Not meaningful.

Note: What the institutions bought and sold measures the change in the institutional holdings as a percentage of a stock's total capitalization, net of price changes. Data for quarter ending 6/28/91. Prepared by the Trust Universe Comparison Service (TUCS), a service of Wilshire Associates, Santa Monica, Calif.